



ARIZONA DEPARTMENT OF REVENUE
Property Tax Division

LAND MANUAL

CHAPTER 4
RESIDENTIAL SUBDIVISIONS

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CHAPTER 4

RESIDENTIAL SUBDIVISIONS



SUBDIVISIONS

A.R.S. § 32-2101(54) mandates that any parcel of land in Arizona that is divided into six or more lots, parcels or fractional interests is a subdivision if each of the lots, parcels or fractional interests are less than 36 acres in size. However, this definition, when considered alone, is insufficient when utilized for the assessment of subdivision land. There are many variations between the different cities and counties in Arizona in their requirements for lot splits and other types of land subdivision which must be considered. For example, in one county, a large tract of land that has been divided into several 40 acre "ranchettes," and which includes only one parcel which is less than 36 acres in size, has been deemed to be a subdivision. This is obviously inconsistent with the above definition. Knowledge of local practices, as well as relevant statutory requirements are, therefore, essential to the correct valuation of subdivision land. This chapter will focus on residential subdivision land valuation only.

Residential Subdivision Overview. The value of vacant land changes as the land passes through the various stages of development from raw land to subdivided land to fully developed parcels that are ready for the construction of the intended structural improvements on the land. This section provides definitions for these various stages of development and provides guidance on how to establish market value at each of these stages. The following discussions are presented in terms that are relevant to residential subdivision property development.

Prior to any lots or parcels being offered for sale by a developer, a residential subdivision must be approved by various local governmental authorities and by the Department of Real Estate.

Typically, the normal sequence of events for a subdivision's approval is as follows:

1. The developer prepares a plat map and any other supporting documentation which may be required by the various local governmental agencies involved. These requirements are usually included in the Arizona Department of Real Estate's application for a subdivision public report. Note that the application does not have to be obtained first, and typically, it is not. However, developers usually know, or have obtained, the requirements for a proposed subdivision from local governmental agencies and have complied with most, if not all of them prior to the submission of the application to the Department of Real Estate for their review. No sales activity can commence until the subdivision public report has been issued.



2. These documents are submitted to local agencies for their approval. Approval is usually required from the City or County Engineer, the County Flood Control Office, the City or County Health and Sanitation Departments, the City Transportation or County Highway Department and, possibly, any of several other local (and in some instances, even a few state or federal) agencies, depending on the particular circumstances involved. One or more of these governmental agencies may establish specific requirements for the subdivision as a whole, and may also specify certain requirements for all (or any given number) of the individual parcels within a subdivision. It is at the discretion of the Department of Real Estate to decide whether or not to include all of these requirements in their public report, although the normal requirements are generally found in the report.
3. Upon approval by these agencies, the local Planning and Zoning Board must approve the subdivision's plans before they are submitted to the local County Board of Supervisors, or the appropriate City Council or other local governing entity for their final approval.
4. Upon approval by the appropriate local governing board, the plat map is recorded with the County Recorder, as required by A.R.S. § 32-2181(A)(6).

Note: The legal description will remain as shown on the plat map, regardless of any further steps.

The Assessor receives a copy of each plat map recorded at the Recorder's office. Additional information pertaining to subdivision development schedules, any projected or occurring lot sales data and similar information can normally be obtained from the developer on a cooperative basis. A.R.S. § 42-15052 provides the Assessor with the necessary legal authority to demand maps, drawings, papers, etc., pertinent to such property. When sufficient information is received, the Assessor prepares a map to accurately reflect the new subdivision, assigns each lot a parcel number, and sets up the county subdivision file.



5. The recorded plat map, public report questionnaire and any other accompanying documentation required that have been approved by the various governmental agencies and the local governing board are then submitted to the Department of Real Estate by the developer for their review.
6. The developer is required by A.R.S. § 32-2181(A)(17) to provide assurances for completion of any required off-site improvements (and, if applicable, any required on-site improvements), in the form of a cash deposit, a performance bond, or a lender's letter of credit, placing these funds into an escrow account in favor of the appropriate city or county. However, the Department of Real Estate's Commissioner does have the authority to waive this requirement, if justification can be demonstrated by the developer for doing so. Copies of cost estimates for planned improvements may also be required.
7. The Department of Real Estate reviews all submitted data and may perform an inspection of the subdivision. Note that per A.R.S. § 32-2183(B), developers may also (and often do) elect to submit their own version of the final public report. In either event, if the application submitted is determined to be complete and is found to be acceptable, the Department of Real Estate then issues a public report on the subdivision and the developer may proceed with sales activities.

As noted in number 1 above, there is no direct correlation between the developer obtaining the subdivision public report and the start of construction activities. Most subdividers begin construction activities and install at least some off-site improvements before approval is received from the Department of Real Estate. If such improvements are installed prior to approval as of the valuation date, their value must be added to the value of the land. The status of the subdivision on January 1 of the valuation year determines the valuation for the following tax year. Exceptions to this approval process will be discussed in more detail in Chapter 6 regarding unsubdivided land.

Once the subdivision is recorded, each parcel must be valued separately, because each parcel is now an individual legal entity. Its value should be indicative of its probable sale price in the market. For property tax assessment purposes, property is valued in fee simple, without consideration of the form of ownership, the financial arrangements of ownership, or any other



aspect of the developer or property owner's individual circumstances. These items pertain only to the owner's interest, which for property tax purposes is irrelevant. It is the land that is taxed, not the owner.

At the point when the subdivision has first been recorded and assigned parcel numbers, the subdivision's assessed land value does not include a permanent value increment for preparation and planning costs (even if development activity has occurred) and should be valued similarly to other acreage in the area. The experienced appraiser who has worked extensively with subdivisions will normally make a comparative parcel value estimate. The appraiser will need to field check the subdivision to determine which type of subdivision is being developed (discussed below) and will also have to determine what type of off or on-site improvements, if any, have been made to the parcels at the time of the inspection. This will determine which value "type" should be used for the first valuation of the parcels (discussed later under "Initial value"). The appraiser should also begin gathering any available sales data at this time.

Completed Parcel Definition. A "completed" parcel, as used in the context of this chapter, is defined as any parcel in a new subdivision that has all of the off-site improvements required by the various governmental agencies physically in place. Since the required off-site improvements can vary for each subdivision, it is important that the public report be referenced for this information. (If the information is not in the public report, the local governing officials should be contacted to determine their specific requirements.) Also, the public report may specify that certain initial on-site engineering requirements for each parcel (or for any given number of parcels) in a subdivision must be met before any structurally related on-site improvements can be built. For example, topography may make it necessary for one or more parcels to have their own retention basin capable of holding a certain amount of water prior to runoff being channeled into storm sewers. Therefore, these engineering requirements would also be considered as part of the requirements for a physically "completed" parcel. Once all of the requirements are met, the parcel would then constitute a physically "completed" parcel or site, that is ready for the installation of the planned structurally related on-site improvements.

Required off-site improvements would not necessarily include such items as clubhouses, pools, or other common facilities (typically found in condominium projects or planned unit



developments) that will be built at a later date. While some developers may install all off-site improvements to all parcels prior to any on-site construction, the majority of developers will usually install off-sites only to a sufficient number of parcels in a subdivision to begin marketing and construction efforts in sections, phases or units. A few developers may only subdivide the land "on paper" and provide nothing more than rough access to the parcels, requiring owners or builders to bring in all off-site improvements to the parcels individually. Further, over time the engineering costs for backfill, compaction, drainage, rough grading, utility lines, earth moving, and road construction, together with legal and design costs, land acquisition costs, and many other miscellaneous costs, can vary considerably between otherwise similar subdivisions. They can also differ substantially between individual developers of similar subdivisions. These variations among subdivisions and developers make physical site inspection, referencing the public report, and, if necessary, contacting the governmental agencies involved, vital to determining the correct valuation and assessment procedure for any residential subdivision.

Common Areas. A.R.S. § 42-13402 defines common areas as "consisting of improved or unimproved real property that is intended for the use of owners and residents of a residential subdivision or development and invited guests of the owners or residents and include common beautification areas". A.R.S. § 42-13402 excludes common areas of condominium properties and golf courses from consideration as residential common areas.

To determine the qualification of a common area for separate valuation under A.R.S. §§ 42-13401 through 42-13404, a review of conveyance documents from the Arizona Department of Real Estate, the County Recorder's Office, or the homeowner's association will help make the decision by the way the common area is deeded. A qualified residential common area must be deeded to a nonprofit homeowner's association, nonprofit community association, or a nonprofit corporation. Additionally, for the common area to qualify for separate valuation, property owners must have membership in the association or the corporation, or must have an obligation to pay mandatory assessments to maintain and manage the common area. Each qualified common area parcel, whether improved or unimproved is valued at \$500. For a complete discussion of valuation of qualified common areas, see the Arizona Department of Revenue Property Tax Division Guideline, entitled "Residential Common Areas", dated March 31, 2000.



BASIC SUBDIVISION TYPES

A. Subdivisions - Parcel Size Under 3 Acres.

Subdivisions in this category usually fall into two major groups:

1. The first category consists of parcels which will have houses with predetermined floor plans and elevations. In this category each parcel and structure is sold as a complete package, with the purchaser selecting exterior and interior decorator colors and minor additional items, such as appliances and other fixtures. The purchaser may or may not be permitted to make limited elevation or floor plan modifications. Parcels in this type of subdivision will generally range from 1/7 acre to 1 acre in size.
2. The second category consists of parcels sold with the provision that one builder, or one of several specified builders, may construct a home to the specifications of the purchaser. Frequently, these homes will be semi-custom models of standard designs, with the purchaser having the options of selecting the elevation, changing the square footage, and moving some interior and/or exterior walls. In other cases the homes will be custom designed to the purchaser's specifications. Parcels in this type of subdivision will generally range from 1/2 acre to 3 acres in size.

With predesigned homes sold as a package, it is difficult to determine the amount of the sale price which should be allocated to the parcel and the amount which should be allocated to the improvements without consulting the subdivider. If this is not feasible, the Allocation (or Land Ratio) Method of estimating the land value ratio from similarly improved properties can be employed. Those in the second group are generally sold as parcels, so the price should be known.

B. Subdivisions - Parcel size from 4 to 36 Acres :

Large residential subdivisions will often be developed and sold over an extended period of time, usually in separate sections, phases or units. Large parcels or tracts that are held for the future use or expansion of the subdivision, where no plat map has been filed, would still be valued as either agricultural use property (assuming the land had met, and



continues to meet the agricultural status requirements of A.R.S. § 42-12152) or, as vacant land appraised at market value.

The development of subdivisions of this type have normally proceeded in one of the following two ways:

1. Initially the characteristic land use will change very little, if at all. For example, agricultural land is frequently sold, and is leased back, used and maintained by the original owner. The purchaser may assume the position of a speculator and defer the new use of the land, potentially for several years. The user of the property will frequently contend that the use and character of the area has not changed and that agricultural values should be retained. Agricultural status may be maintained only if the owner complies with all of the filing requirements of A.R.S. § 42-12153. If not, the acreage should be removed from any farm or ranch land inventory and the parcels should be appraised on the basis of the market value of the land.
2. Changes to the characteristics of the land will begin to occur fairly rapidly. Rough graded roads will be extended throughout the area. Primary roads will be well maintained and the subdivision's interior roads will be installed. Off-site improvements are installed (to varying degrees) and construction of improvements will commence.

Individual Parcel Valuation. As discussed in Chapter 3, the following land valuation methods are listed in the order of preference for their application to the appraisal of land.

1. Direct Sales Comparison Method.
2. Allocation (or Land Ratio).
3. Abstraction.
4. Anticipated Use (or Cost of Development).
5. Capitalization of Ground Rent.
6. Land Residual Capitalization.

The Direct Sales Comparison Method is the most accurate, reliable and defensible method of valuing land. The remaining Alternative Methods are far less reliable, and should be utilized



only in the absence of adequate market sales activity. The Direct Sales Comparison Method and the Allocation Method are emphasized in this chapter.

Initial, Interim and Final Full Cash Values. In valuing individual subdivision parcels, there are three conceptually distinct values, applicable in three distinct valuation periods, each having its own valuation considerations. For the purposes of this manual, these three values will be referred to as Initial, Interim, and Final Full Cash values. The determination of each type of value is based on the physical status of the parcel being valued at the time of inspection. Each of these values, however, constitutes a full cash value at the time it is effective. These values are defined as follows:

Initial Full Cash Value. That value applicable to all parcels in a subdivision when the subdivision has been approved by the Department of Real Estate, it has been mapped, and the lots have each been assigned individual parcel numbers by the Assessor. Typically, the value of each parcel will simply be a raw land value estimate for the entire subdivision, divided by the number of parcels in the subdivision. This Initial value will generally be utilized for only one tax year. In the following year, actual construction of the subdivision will normally have commenced. In many instances, however, subdivisions may develop very rapidly. By the time the Assessor begins the valuation process, developers may have already made significant investments in planning and land preparation costs. If so, and especially if sales activity has begun already, these costs should be included in each parcel's first valuation. This may preclude there ever being an Initial value, as described above, at all. The first valuation of the parcels may, in such cases, have to utilize an Interim value figure.

Interim Full Cash Value. That value applicable to those parcels in a subdivision that have progressed beyond the Initial valuation stage, but which are not yet physically developed to the point where the establishment of a Final Full Cash value would be appropriate. It is a transient value that reflects the physical status of an incomplete parcel in a subdivision as of January 1 of each year. A pro-rata share of the subdivision's raw land cost, plus the cost of any off-site improvements (and, if applicable, any specified on-site improvements) would be used for those parcels which are not fully developed ("completed") on the valuation date. The cost of any off-site improvements would also need to include a factor for the developer's profit and overhead, so that the Interim value



for any parcel that was actually a "completed" parcel, but which can not yet be assigned a Final Full Cash value (due to the lack of sales activity in the subdivision) would approximate the Final Full Cash value. In some instances, an Interim value may be required in the subsequent tax year, depending on the physical status of the parcel as of the next valuation date.

Final Full Cash Value. That value applicable to those parcels in a subdivision which have their planned off-site improvements (and any required on-site improvements) physically completed **and** that are located in a subdivision in which at least one recorded, arm's-length sale has occurred. The sold parcel does not need to be one of the "completed" parcels. The recorded sale is simply the "trigger" which indicates the start of market sales activity and warrants the establishment of an ad valorem value that directly reflects the market value for all "completed parcels" in the subdivision, or in a section, phase or unit. This does not mean that the Assessor must (or can) use a single sale to establish the Final Full Cash value, or that the recorded sale price of the sold parcel is to be utilized as the Final Full Cash value for all completed parcels. The Assessor must apply standard appraisal procedures, which should include locating comparable parcel sales in similar subdivisions to establish the appropriate Final Full Cash value for all "completed" parcels. The term "Final Full Cash value" in this chapter applies only to developing subdivisions. It is not intended to restrict continued market value adjustments of full cash values in fully developed, established subdivisions.

The Initial, Interim, and Final Full Cash values of a subdivision's parcels may also be established on the basis of the developer's allocation to land, or on the Allocation (or Land Ratio) Method, which relies on estimates from established and competing new subdivisions and market sales data. For example, since residential developers must be competitive, there will normally be a similar relationship between the selling price of the typical house in similar subdivisions and the land value allocations in them. The land to improvement value ratio, however, is not a constant within and between subdivisions. For example, it would not be unusual to find a 20 percent to 30 percent difference in the price of completed houses within a subdivision. A price range of \$80,000 to \$100,000 would not be uncommon in mass constructed subdivisions, but homes at both ends of the sales range would be constructed on typical parcels (a "typical" parcel being determined by size, location, view, etc.). On this basis,



an estimated one to four (20 percent) land to improvement ratio would establish a land value of \$16,000 to \$20,000 for similar parcels in the same subdivision, depending on the houses constructed on the parcels. If they are truly comparable, these relationships should be similar in competing subdivisions. In such cases, parcel value estimates must be uniform within and between subdivisions.

ADDITIONAL CONSIDERATIONS

Since the purpose of having these distinctions between Initial, Interim and Final Full Cash values is to establish the appropriate market value of all parcels in a subdivision, or in each section, phase or unit of a subdivision as of the valuation date, it may be necessary to establish Initial, Interim and Final Full Cash value estimates on different parcels in the same subdivision, or section, phase or unit simultaneously. Once one or more of the parcels in a subdivision have been sold, all physically "completed" parcels in the subdivision should be valued at Final Full Cash value as of the valuation date. All "incomplete" parcels would remain valued at their appropriate Initial or Interim values.

Sales of parcels within a subdivision may begin as soon as the subdivision plat is recorded, all requirements from local governmental agencies are met and a public report has been issued by the Department of Real Estate. If construction activities have not commenced, this is referred to as a "paper subdivision," because no physical developmental activities have been initiated on site at the subdivision at this point. However, Final Full Cash values should not be applied to any parcels in the subdivision until at least one parcel has been "completed" **and** at least one recorded sale of a parcel has occurred which has been verified as being an arm's length transaction.

When sales occur before the parcels are "completed" and Final Full Cash values have not yet been determined, the Assessor should use an appropriate warning code on the Affidavit of Property Value (DOR form number 82162), to indicate that this situation has occurred. The Property Use Code in such a case should also be changed appropriately to indicate an "incomplete" subdivision parcel sale.

As stated earlier, the key to establishing the Final Full Cash value on "completed" parcels is the recorded sale of at least one parcel in the subdivision. The sold parcel does not need to be a "completed" parcel at the time of the sale. Again, this does not mean that the Assessor



must (or can) use that single sale by itself to establish the Final Full Cash value. The Assessor should apply standard appraisal procedures, which may require locating comparable parcel sales in similar subdivisions to establish the appropriate Final Full Cash value. The appraiser is cautioned that the recorded sale price of any one parcel in a subdivision, or in a section, phase or unit, may not necessarily reflect the actual market value for that (or any other) parcel. The sale price must be reviewed to insure that it was truly an arm's-length transaction and that the parcel's location, size, and other relevant market factors have all been considered in determining the market value of the parcel.

Valuation Examples. Newly activated subdivisions are generally characterized by few sales and minimal off-site improvements. The Initial value of parcels in a new subdivision can be established as follows:

In the following examples, the subdivision has received all necessary approvals from local authorities, all required improvement completion assurances (performance bonds, etc.) are in place, and the Department of Real Estate has issued the subdivision public report.

1. The Initial value of a parcel in subdivisions with minimal off-sites will be based on the market value of the land that comprises the subdivision. For example:

Purchase price of subdivision land or of a comparable area = \$100,000.

Number of residential sites in the subdivision = 40.

Total cost of land allocated to parcels = $\$100,000 \div 40 = \$2,500$.

Initial market value per parcel = \$2,500.

Another method, using the same approach, is to determine value on a per acre basis and appraise each site in the subdivision on the basis of the number of sites to the acre, as appropriate.

2. Subdivision area = 10 acres.

Purchase price of subdivision land or of a comparable area = \$100,000.

Unit value per acre = \$10,000.



Residential parcels per acre = 4.

Per acre cost divided by the number of residential parcels per acre
(\$10,000 divided by 4 = \$2,500).

To establish the Interim parcel value, a proportionate share of the costs of installed off-site improvements (and any appropriate on-site preparation costs) must be added to the raw land value. Another method that can be used to establish the Interim value is based on the selling price of the individual parcels. Once the selling price of the parcels is established, the cost of off-site improvements not yet constructed can be subtracted to establish the Interim value. It is important to determine what off-site improvements the selling price includes before making any deductions for incomplete off-site improvements. In no case, however, will the parcels be reduced in value below the current market value of unimproved raw land (Initial value) on a comparative unit basis in the area.

Subdivisions that have progressed beyond the Initial valuation stage are generally characterized by having off-site improvements completed to a significant proportion of the parcels in one or more sections, phases or units of the subdivision to allow increasing sales and construction activity to occur. As stated, a single subdivision or section, phase or unit, can have all three values (Initial, Interim and Final Full Cash) on parcels as required for the same valuation year. The following example demonstrates this concept:

The subdivision public report requires that all parcels have paved road access (includes curb and gutter, sidewalk and lighting) and water, sewer and electric service to the parcel's boundaries. No other off-site improvements (and no specified on-site improvements) are required. The subdivision contains nine (9) parcels. The entire tract comprising the subdivision was originally purchased for \$90,000, resulting in an initial valuation of \$10,000 per parcel. This was the Initial value established for all parcels as of the valuation date of Year One.



Road		
Parcel #1	Parcel #2	Parcel #3
Parcel #4	Parcel #5	Parcel #6
Road		
Parcel #7	Parcel #8	Parcel #9 (with unobstructed river view)

For the Year Two valuation date there have been no off-site improvements installed to parcels numbered 1, 2 and 3. Parcels numbered 7, 8 and 9 are completed, having all required off site improvements in place. Parcels numbered 4, 5, and 6 have sewer, water and electricity lines in place, but the curb and gutter, sidewalks and street lighting are not yet installed. Parcel number 3 sold in Year One for \$40,000. At the time of sale, the parcel did not have any off-site improvements in place. The \$40,000 sale price of parcel 3 requires the completion of all off-site improvements. The sale has been confirmed as an arm's length transaction. This sale indicates the need to place Final Full Cash values on all completed parcels. The appraiser, after reviewing comparable sales from similar areas and subdivisions, has determined that the Final Full Cash value for similarly completed parcels should be in the range of \$38,000 to \$45,000.

The appraiser has also developed the following subject subdivision costs data:

Note: Do not confuse this data with the Anticipated Use or Cost of Development Method.



Subdivision Development Costs (per parcel):

Roadway improvements =	\$10,000
(includes curb and gutter, sidewalks and street lighting)	
Water service =	\$ 3,500
Electric service =	\$ 6,000
Sewer lines =	\$ 4,500
Developer profit and overhead allowance =	30 percent
Location premiums =	20 percent

The Year Two full cash values of all of the parcels would be determined as follows:

Parcels 1, 2 and 3 remain at their Initial values of \$10,000 each (assuming no changes in the market value of the entire subdivision tract).

Parcels 4, 5 and 6 have Interim values determined by their current costs of development:

Raw land cost of \$10,000 each, plus the cost of off-site improvements in place at the time of inspection (consisting of water, electric and sewer improvements only) totaling \$14,000, plus the developer's profit and overhead for the off-site improvements ($\$14,000 \times 30\%$) = 4,200, for a total cost of \$28,200.

Parcels 7 and 8 would be valued at their Final Full Cash value, as determined by the market. Their Final Full Cash values could also be established by using the development costs as follows:

The cost of water, sewer and electric services (\$14,000) and all road improvements (\$10,000), totaling \$24,000. Developer's profit and overhead for improvements ($\$24,000 \times 30\%$) = \$7,200, for a total of \$31,200. Add the raw land cost of \$10,000 for a total cost of \$41,200.

The cost generated value indicated is well within the market sales range of \$38,000 to \$45,000. Because the appraiser has sufficient market comparables to support the cost generated value, the value of \$42,000 was determined to be the best indicator of market value. Parcel number 9 would also have a value of \$42,000 as determined above, plus a 20



percent lot premium, due to a panoramic, unobstructed view of the river from that parcel. This would produce a value estimate of \$50,400 (\$42,000 + 20%).

To reiterate, the values for all of the parcels in the subdivision for Year Three would be as follows:

Parcel #1.	\$10,000	= Initial Value.
Parcel #2.	\$10,000	= Initial Value.
Parcel #3.	\$10,000**	= Initial Value.
Parcel #4.	\$28,200	= Interim Value.
Parcel #5.	\$28,200	= Interim Value.
Parcel #6.	\$28,200	= Interim Value.
Parcel #7.	\$42,000	= Final Full Cash Value.
Parcel #8.	\$42,000	= Final Full Cash Value.
Parcel #9.	\$50,400	= Final Full Cash Value (w/ 20% premium).

** Parcel #3 sold in November of Year One for \$40,000. It was this first sale in the subdivision which triggered the requirement of going to Final Full Cash value on all "completed" parcels. Parcel #3 is not a "completed" parcel, but it does not need to be for its sale to trigger the need to re-value all parcels in the subdivision. It also does not yet receive a Final Full Cash market valuation, as it is not yet a "completed" parcel.